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Market Development Report

Xiamen: Fujian's Booming Southern Port City

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Approved by:

Joani Dong
U.S. Consulate General

Prepared by:

Vivian Xian

Report Highlights:

With the rapid expansion of the retail, restaurant, hotel and tourism sectors as well as higher income levels, post expects the Xiamen market will present more opportunities for U.S. agricultural products in years to come. However, the market is highly competitive so U.S. products need to differentiate themselves from competitors through pricing, unique attributes and/or strong product support. A well-defined market plan plus commitment to long-term strategy and market promotion are key. This report is based on interviews with senior supermarket managers, restaurant executives, top governmental officials and major traders in Xiamen.

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Xiamen Overview

Situated on the Southeast coast of China, the province of Fujian's southern port city of Xiamen faces Taiwan Island across the Taiwan Strait. The city covers a land area of 1,565 square kilometers (386,745 square miles) and a sea area of over 300 square kilometers (74,132 square miles). By the end of 2005, Xiamen officially reached about 2.3 million permanent residents, of which around one-third can afford imported products. In 2005, there were officially 17 million tourists to Xiamen, mainly on business. Among them, 940,000 came from overseas, primarily from other parts of Asia. Most visitors come from within China. Two golf courses attract Korean and Japanese tourists. As one of China's first Special Economic Zones dating back to the late 1970's, Xiamen boasts one of the most vibrant economies on the Southeast coast of China. The city has successfully attracted many international manufacturing companies, including *Dell*, *Kodak* and *Siemens*.

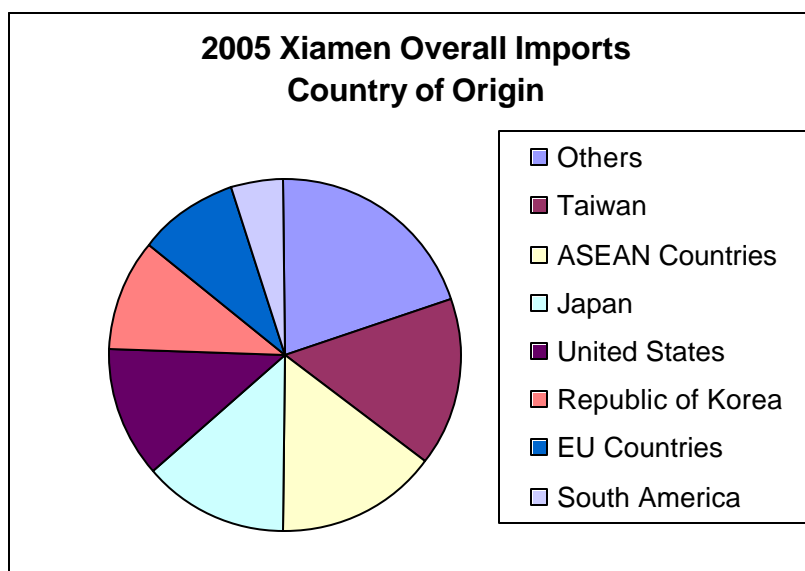


Xiamen and the surrounding area, including Zhangzhou and Quanzhou, accounts for 45.4% of the Fujian province's total consumption. Thousands of entrepreneurs in the region create a significant demand on high quality and high-value consumer products. Xiamen enjoys a high living standard within China on a per capita disposable income of RMB16,403 (US\$2,103). But a more accurate indicator of purchasing power to industry sources is car or home ownership and professional status.

Xiamen City at a glance - 2005	
Population	2.3 million
GDP	RMB 102.9 billion (US\$13.19 billion)
GDP Growth Rate	16% from 2004
Per Capita Disposable Income	RMB 16,403 (US\$2,103), up 13.6% from 2004
Total Import Value	US\$11.3 billion, up 11.4% from 2004
Total Export Value	US\$17.2 billion, up 23.8% from 2004
Major Export Agricultural Products	Vegetables, processed eels, canned mushroom, aquatic products
Major Import Agricultural Products	Soybean, fishmeal, timber, raw skins & hides
Major Export Products (non-agricultural)	Electrical & mechanical products, textiles, shoes, chemical products, stone materials and products, plastic & rubber products
Major Import Products (non-agricultural)	Electrical & mechanical products, chemical products, plastic & rubber products, mineral products, vehicles, vessels & transportation equipment, wood pulp, paper & pasteboard, textile

Source: *Xiamen Statistic Yearbook & Xiamen Trade Development Bureau*

Xiamen benefits from having top-notch port facilities in China, with total imports and exports valued US\$28.5 billion in 2005. The U.S. ranked as its second largest business partner. Major U.S. agricultural imports through the Xiamen ports are soybean, fishmeal, timber and lumber.



2005 Xiamen Agricultural Imports from the U.S.	
Soybean	198,000 tons
Timber	90,000 cubic meters
Cotton	1,075 tons
Raw hides and skins of bovine	20,000 tons
Wet-blue bovine skin	2,300 tons
Raw skins of swine	1,600 tons
Fish Meal	1,600 tons
Whey powder	2,900 tons
Gelatin	750 tons
Frozen seafood	300 tons
Frozen potato products	US\$2.1 million worth

Sources: China Customs Statistic & Xiamen CIQ

Fast Growing Retail Business

The Xiamen retail sector is highly competitive and booming. It has several international retailers, including two *Wal-Marts*, one *Carrefour*, four *Trust-Marts* and one *Metro*. Local retailers *New Huadu* and *Minkelong* also have found niche markets. In addition to hypermarkets, the city has several convenience stores and community stores such as *Beatrice*, *Tunnel 88* and *Yes*. The retail business reached a total of RMB27.2 billion (US\$3.49 billion) in 2005, a 16% increase from the previous year. Industry sources expect a 10% annual sales increase in coming years.

Because of price competitiveness, concerns for a cleaner and better shopping environment including parking spaces for increasing number of car owners, more Xiamen consumers want to shop in supermarkets rather than traditional wet markets. According to retail sources, those with a monthly income higher than RMB3,000 (US\$385) tend to shop more frequently at supermarkets. Customers also include those who live within a one-hour radius of Xiamen near factories where grocery stores are scarce. Fresh products like vegetables,

fruits and meats are a major revenue earner for retailers.



Dedicated shelves in Wal-Mart Xiamen store for imported foods

A select group of Xiamen consumers are willing to pay a 10 - 20% premium to try imported products. However, typically only a limited amount of imported food products, like *Sunkist* lemons, *Red Delicious* and *Granny Smith* apples from Washington state, Thai rice and Italian olive oils, are found on shelves since retailers are more interested in offering competitively priced products to cost conscious customers. Imported alcoholic beverage products and selected snack foods are mentioned as products with good potential.

U.S. exporters interested in the Xiamen market should consider organizing joint promotions with retailers to increase consumer awareness of U.S. packaged food products. Discounted prices and free tastings are the most effective way to spur sales. Tying purchases with souvenirs or value coupons draw customers. Using holiday themes and Chinese symbols help create excitement. Prepaid shopping cards are used for gift giving. Proper education of specific product information is crucial to local consumers. U.S. exporters should work with local partners to register Chinese labels for their products. Consistent supply and stable price are other factors that affect retailers' long-term purchasing decision. Consumers are becoming increasingly concerned about health, hygiene and status.

Wal-Mart

Wal-Mart has eight stores, including one *Sam's Club*, in the Fujian province. There are two Wal-Mart stores in Xiamen, one of which opened in 2000. Both centralized purchased and locally sourced products are supplied to the Xiamen stores. However, imported food products are mainly purchased through the Shenzhen based headquarters. Grocery and fresh products account for 50% of the store revenue. The outlet has two aisles of shelves dedicated to imported grocery products. American products for sale include breakfast cereals, blueberry cookies, hot chocolate drinks, snack foods like almond, peanuts, cashew nuts and mixed nuts, soft drinks, canned soups and seasoning products like pasta sauces. There are U.S. wines and liquors available in the store. According to the store manager, although imported foods only generate a slim profit compared with local products, the store still prefers to include some imported foods to differentiate from its competitors and to attract high-income customers and expatriates. Coffee, crackers (if competitively priced) were mentioned as

having potential for locals and expatriates alike. U.S. products account for 50% sales of imported grocery products. High price is the major obstacle for U.S. packaged foods. For fresh products, we noticed a significant sales volume of *Sunkist* oranges, *Red Delicious* apples, *Gala* apples and *Granny Smith* apples from the U.S. in the Wal-Mart store. Wal-Mart Shenzhen headquarter directly imports the oranges while suppliers from Guangdong provide the apples.



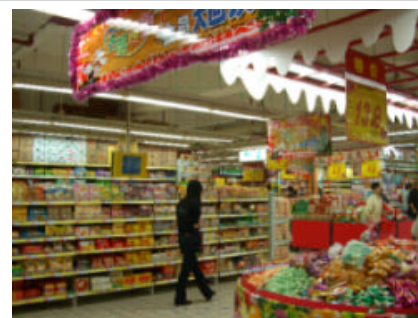
U.S. beverage products at Xiamen Wal-Mart Store

Carrefour

With 17 stores in South China, the first *Carrefour* store in Xiamen opened in 2006. Very limited imported items are found in the Xiamen *Carrefour* store, except for some seasoning sauces from Europe, Washington apples, wines & liquors. More than 60% of revenues are generated from grocery and fresh food products. As a latecomer to the market, the store is striving harder to get its market share through direct discounted price and cash coupons. Its high-income customers own their own cars and homes and are the main target customer for high-value imported products. *Angus* beef and health foods from the U.S. would meet the criteria for good taste and health.

Trust-Mart

First opened in Xiamen in 2000, *Trust-Mart* now has four stores in Xiamen. The Taiwan-based supermarket chain now has 108 outlets throughout the country. Most *Trust-Mart* products are manufactured locally, with a few imported products such as Thai rice and Italian olive oil. Imported fruits from the U.S. like *Sunkist* lemons, *Red Delicious* apples and *Granny Smith* apples from Washington State were also seen on store shelves. Imported fruits are supplied through a Guangdong based importer. Located in the center of the city, the *Trust-Mart Fushan* store receives more than 10,000 customers daily, of which 8,000 purchase on average RMB80 (US\$10.25) per person. According to the store manager, other *Trust-Mart* stores in the Xiamen area have an average sales of RMB50 (US\$6.40) per check.



Plentiful shelf display at *Trust-Mart*
Fushan store in Xiamen



Washington apples found at Xiamen
supermarket

Metro

Metro mainly targets the HRI sector rather than the regular consumer. The HRI sector accounts for 80% revenue while institutions account for the rest. The Xiamen store opened in 2003 and ranks among the top three of all the China stores in terms of sales revenue. With 33 stores in China, *Metro* has established six outlets in South China and plans to open three more by the end of 2007. A large percentage of imported foods are available in the store, to accommodate the needs of Western restaurants and hotels. Raisins, syrups, baking soda, cookies, tortilla crisps, breakfast cereals, cake mixes, microwave popcorns, soups, canned vegetables and sauces from the U.S. are found. The most popular U.S. products include chocolate, syrup, cake mixes and microwave popcorn. However, tomato puree from Italy for and biscuits from European are the best selling imported items. Olive oil consumption is also getting popular due to health concerns. *Metro* conducts regular in-house customer panels from professional ranks to collect ideas on service and products. *Metro* conducts professional product training, especially on new products as a useful way to funnel information to HRI executives and to generate interest and purchases.

Quickly Expanding Hotel and Restaurant Sectors

The Xiamen people have a relatively high disposable income, and many of them have relatives living overseas. They are open to new dining experiences and willing to try different cuisines. Industry sources say most tend to dine out at least once to twice a week, which provide strong support to the expansion of restaurant business. Several *Fortune 500* investors have been lured to the city. Expatriates also create demand for foreign cuisines.

The moderate climate and relaxed atmosphere helps Xiamen attract a steady stream of tourists from both overseas and within China. There are two international five-star hotels (*Sofitel* and *Sheraton*) and 18 four-star hotels, which are targeted to business and meeting purposes including western brands such as *Marco Polo*, *Howard Johnson*, *Holiday Inn* and *Best Western*. Prominent domestic four-star hotels include *Seaside* and *Xianglu*.

There will be ten more five-star hotels within three years which will include almost all major international brands such as *Grand Hyatt*, *Hilton* and *Shangri-La*. Increased competition among hotels will create opportunities for local hotels to incorporate advanced management methods.



Trendy up-scale restaurant in Xiamen

Rooms and food and beverages are the main source of revenue for the hotel sector. Thus, food helps a hotel differentiate itself from competitors and attract more customers. International hotels tend to attract most expatriates to dine in while some local western style restaurants are frequented by local diners who want to experience western style of foods. Considering the cost and acceptable quality of local produce, only limited amounts of imported food products like olive oil, cheese, sun dried tomato and beef are included in the hotel menu.

Usually purchasing is handled by purchasing departments of hotels along with executive chefs. However, maintaining quality and receiving a lower price is the top concern for the hotel. Most of the imported ingredients are sourced from distributors based in Guangzhou, Shenzhen or Hong Kong.

Imported ingredients like pasta, olive oil and Italian sausage, have already found their way into leading five-star hotels in Xiamen. U.S. beef enjoyed a renowned reputation in local food service market. Local consumers are starting to accept various cheese products through the introduction of Western style of food, like pizza. Consistent quality of imported product is one of the advantages that leading hotels and restaurants appreciate to maintain the authentic taste of western style dishes. Other products of interest are high value seafood, include King crab, Boston lobster, grapefruit and cooking ingredients such as seasoning products.

Consumption of red wine is growing steadily in Xiamen for health and status. Thus, middle-to-high priced imported wine could find their market niche in this market. Many upscale restaurants and hotels have a comprehensive wine collection from around the world and state-of-the-art wine cellars. Italy and Australian wines are popular owing to steady promotions like wine tasting, wine dinner and wine bazaars. American wines are keeping a low profile because of much less promotional activities. Given the good prospect that the Xiamen market demonstrates, several major wine importers like *ASC*, *SummerGate* and *Montrose* have established sales office in Xiamen. U.S. wineries should consider more

assertive joint promotion with those importers to obtain and maintain a foothold into the market. Follow-up educational events, like wine tasting, are vital to maintain the customer attention.

Western style fast food chains are getting popular among the younger generation. The city boasts seven *McDonald's*, ten *KFC* and five *Pizza Huts* restaurants. Various cheese products, like Mozzarella and tomato sauces for pizza toppings are imported while French fries and whole corn-on-the-cob are sourced from the United States. A Xiamen based importer told ATO/GZ that the company imports 100 containers of U.S. French fries per month to supply to a popular American fast food restaurant chain. The same company also brings in cheese sticks from the U.S. for pizza toppings. However, due to its good quality and relatively cheap price, New Zealand is still the biggest dairy products supplier to the market. This contact believes that it's crucial for U.S. exporters to think beyond shipping products and more in terms of how they and their products need to differentiate themselves from competitors. It's vital for U.S. exporters to establish long-term relationships to promote themselves and their products if they want to obtain and maintain a firm hold on the market. Providing good support services greatly adds value to a product.

Processing Industry

In addition to food and beverage products, other U.S. origin agricultural products, like fishmeal, whey powder, food additives, timber and raw hides, have also found their niche in Xiamen for further processing. Imported soybeans are mainly crushed for oil, and meals used as a main protein source for feed. The feed industry consumes a large quantity of fishmeal, while the food manufacturing industry in Xiamen uses whey powder and food additives in daily production. Price and consistent supply are major concerns for local manufacturers to decide on the use of imported ingredients. For wood products, most imported timber are used for office furniture and kitchen cabinet manufacturing by Taiwanese invested factories, then re-exported to overseas markets. However, the local demand for high quality wood products is growing steadily. Xiamen's surrounding area has a relatively large leather manufacturing industry which mainly targets the export business. Due to environmental protection concerns, the local government has begun to limit development of tanning factories and will eventually suspend them. Thus, post expects raw skin exports from the United States to shrink in a few years.

Well Developed Infrastructure Facility

Thanks to superior natural conditions, the Xiamen port is a deep-water sea berth port that could serve 100,000 DWT vessels. The port ranked as the seventh largest container port in China or 26th in the world. It handled nearly 4 million TEUs (20 foot equivalent unit) in 2006.



Starting on October 15, 2006, three more ports previously under the supervision of Zhangzhou have been reassigned the management role for the Xiamen Port Authority. The consolidation of port areas means the Xiamen Port Authority manages eight ports with a combination of bulk, container and passenger ports. The Xiamen port now has 122 berths in operation; among them, 33 are deepwater berths. The port has set up 53 shipping lines with all major ports in China and the world. The total handling capacity of the Xiamen port reaches 20 million TEUs yearly. The Xiamen Port Authority expects a 25% increase in container within the coming years.



Xiamen Port Area

In addition to cargo services, the Xiamen Port Authority is planning to cooperate with several companies that operate luxury passenger vessels around the world to establish routine routes between Xiamen and selected world-class resort destinations, such as Miami. The city has already finished construction of its international tourist quay, which can accommodate the largest cruise ship in the world. If the proposed routes take place, Xiamen will surely attract more wealthy overseas visitors, and the demand for high quality imported foods is expected to rise.

In addition to ports, Xiamen has a comprehensive transportation network, consisting of highways, railways and air routes. Known as *Gaoqi International Airport*, Xiamen is the fourth-largest airport in Mainland China. There are 107 air routes between Xiamen and 75 cities both in China and overseas. The city also has scheduled direct cargo flights to Chicago and Los Angeles in the U.S., Tokyo, Nagoya and Osaka, Japan as well as Luxemburg and Hong Kong. Xiamen is connected to the national railway network through the Yingtian-Xiamen railway. Well-developed highways connect Xiamen to major cities in the Pearl River Delta and the Yangtze River Delta within an 8-hour radius.

Summary

With the rapid expansion of the retail, restaurant, hotel and tourism sectors as well as higher income levels, post expects the Xiamen market will present more opportunities for U.S. agricultural products in years to come. However, the market is highly competitive, so U.S. products need to differentiate themselves from competitors through pricing, unique attributes and/or strong product support. A well-defined market plan plus commitment to long-term strategy and market promotion are key.

Appendix

Sector	U.S. products in the Xiamen market	U.S. products with good potential	Available competitors' products
Retail	Red Delicious apples, Gala apples, Granny Smith apples, Sunkist oranges, hot chocolate drinks, almonds, cashew nuts, soft drinks, canned soups and vegetables, seasoning products, cookies, cereals, raisins, microwave popcorns, cake mixes, tortilla chips, syrups	Cookies, coffee, fresh fruits, infant foods, health foods, microwave popcorns, red wine, liquor	Cookies, red wine, liquor, beer, pasta, olive oil, candy, sauces, rice, fresh fruits, tomato puree, biscuits
HRI	Sauces and seasoning products, frozen potato products, cheese, pork, sweet corn, fruits	Cheese, red wine, high-value seafood products, beef, sweet corn, seasoning products, sauces, almonds, olive oil, frozen potato products, grapefruit	Cheese, red wine, liquor, beef, seasoning products, olive oil, sun dried tomato, sausage
Processing	Whey powder, food additives, hides and skins, soybean, fishmeal, gelatin	Almonds, soybean, whey powder, food additives, fishmeal, gelatin, DDGS	Soybean, whey powder, food additives, fish meal

Post Contact Information

ATO/Guangzhou is continually working on new activities throughout the South China region. For more information, please contact:

U.S. Agricultural Trade Office (ATO), Guangzhou

14/F, Office Tower

China Hotel, Guangzhou

Tel: (86-20) 8667-7553

Fax: (86-20) 8666-0703

E-mail: atoguangzhou@usda.gov

Website: www.usdachina.org